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1. BRITAIN FACES CRITICAL FINANCIAL SITUATION

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[REDACTED] Chancellor of the Exchequer Macmillan said privately on 19 November that the British balance-of-payments figures for this month would be "very bad" and that he was facing a most difficult choice. Macmillan said that in announcing the figures on 3 December he could either let events take their course, in which case sterling would depreciate substantially and Britain would no longer be a major power, or he could take the stronger line that Britain had reserves which it would use to support the rate. In this connection, he mentioned the International Monetary Fund and borrowing against government-held United States securities. He indicated that he favored the latter course.

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Macmillan said he realized that he could not possibly make the necessary arrangements to use these reserves within 10 days and that he could not secure the necessary United States agreement until British troops were out of Egypt.

Comment

For the last several months Britain's sterling reserves have shown a steady decline with the exception of September. On 1 November, following a fall of \$84,000,000 in the October figures, the reserves were only \$244,000,000 above what British Treasury officials have long considered the minimum safety level.

In answering Labor's 12 November parliamentary attack on the government for disregarding the economic consequences of its intervention in Egypt, Macmillan acknowledged that there would be a "serious temporary effect upon our economy and our reserves." He insisted that the sterling reserves were sufficient to take care of such a setback, commenting, "that is what reserves are for."

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3. ISRAEL'S POSITION ON NEGOTIATING WITHDRAWAL OF TROOPS

Israel planned to start negotiations on 20 November with the UN secretary general on the withdrawal of troops from Egypt, according to Israeli ambassador Eban. Eban said Israel intends to ask that UN forces take over key points in Sinai as Israeli troops move out and that Sinai be demilitar-

ized "without prejudice to Egyptian sovereignty." Israel proposes that it be assured of freedom of the Straits of Tiran by one of three alternatives: (1) leaving Israeli forces there, (2) leaving the islands in the straits empty, or (3) having a UN force occupy the islands. The Israeli position on the ultimate disposition of the Gaza strip is not yet firm, but Tel Aviv will insist that the Egyptians do not return there.

According to the American embassy in Tel Aviv, the Israeli defense force, the press, the general public and all but the extreme political parties have reluctantly accepted Ben-Gurion's agreement in principle to evacuate Sinai. The embassy believes that the Israelis, however, will insist on border security and freedom of transit in the Suez. The embassy believes that if these objectives are not attained, not even Ben-Gurion could persuade the Israeli public to accept Egyptian control of the Gaza strip, or the re-establishment of Egyptian military control in Sinai and the Straits of Tiran, unless the big powers give Israel iron-clad security guarantees.

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5. YUGOSLAV ARREST OF DJILAS

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The arrest in Belgrade on 19 November of former Yugoslav vice president Djilas may be designed to counter any Soviet criticism during the current Belgrade-Moscow controversy that Yugoslavia is no longer a true supporter of world Communism. Belgrade presumably foresees an increasingly difficult period in its relations with Moscow following Tito's critical speech of 11 November and Pravda's rejoinder on 19 November.

Djilas' detention arose from the publication in the American press of his article which described the Hungarian revolt as the "beginning of the end of Communism generally." There have been no signs of serious unrest in Yugoslavia in the wake of Hungarian events, but Djilas is presumably viewed by the regime as a natural rallying point for those forces opposing the Belgrade Communist government. Tito stated in his 11 November speech that Yugoslavia is "united and strong," but "we must not allow various characters and elements to speak all sorts of nonsense."

Djilas was purged in 1954 for advocating greater freedom in Yugoslavia and was arrested in early 1955 on charges of conspiring against the state when he called for the establishment of a two-party system in Yugoslavia in an interview with a Western correspondent. He was at that time given an 18-month sentence, but placed on probation for three years.

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8. EARLY INTEGRATION OF PATHETS INTO LAOTIAN GOVERNMENT SEEN LIKELY

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Laotian cabinet opposition has apparently developed over Prime Minister Souvanna Phouma's efforts to win approval for the immediate formation of a coalition government with the Pathet Lao. He reportedly told the cabinet on 15 November that Pathet Lao chief Souphannouvong had agreed to the integration of the Pathet Lao army and the restoration of royal government authority in the northern provinces in return for immediate Pathet participation in the government. The cabinet, which opposed this move since it would deprive the government of all bargaining power with the Pathet Lao, is turning the issue over to the national assembly.

Souvanna Phouma has indicated that he will resign unless his proposal is accepted, thus precipitating a cabinet crisis. Faced with this prospect, and the popular demand for a settlement with the Pathets, the assembly seems likely to approve the formation of a coalition government, broadening the cabinet to include several important Pathet Lao officials, probably including Souphannouvong.